4 DISCRETIONARY VERIFICATION

When a student's application is selected for verification, he or she must provide documentation for the items discussed in Chapter Two, "Required Verification Items and Acceptable Documentation." You may also require these applicants to verify any additional data elements on the application, as you deem appropriate.

You have full discretion, therefore, as to which applicants must provide documentation for any of the additional data elements and what constitutes acceptable documentation. This chapter discusses the circumstances in which discretionary verification authority may be used and provides suggested methods of verifying specific items.

DISCRETIONARY VERIFICATION

The school may require verification of additional data. The most common items documented under discretionary verification are

Untaxed Income/Benefits

Total Income

Assets (Value and Debt)

Untaxed Portion of Pensions

This amount can be verified from IRS Form 1040, line 15a minus 15b and 16a minus 16b; or 1040A, line 10a minus 10b and line 11a minus 11b (excluding rollovers).

Payments to Tax-Deferred Pension and Savings Plan

These payments include untaxed portions of 401(k) and 403(b) plans and can be paid directly or withheld. Amounts can be verified with W-2 forms or a signed statement from the applicant.

Tax-Exempt Interest Income

This amount can be verified from IRS Form 1040 or 1040A, line 8b.

Other Untaxed Income and Benefits

This would include benefits such as Black Lung Benefits, Refugee Assistance, and untaxed portions of Railroad Retirement Benefits. To verify these income and benefit amounts, you may accept a statement, signed by the applicant, detailing the sources and the amounts received. (If the applicant completed a verification worksheet, he or she may have included this statement.)

VERIFYING TOTAL INCOME

If the applicant's reported AGI (or income earned from work) is so low that you doubt the family could have lived on that amount, you may wish to verify total income, although required verification does include some of the components of total income. Total income is the sum of AGI (or income earned from work), Social Security Benefits, AFDC, and other untaxed income. (See Worksheet #2 in the FAFSA instructions for a list of other income that must be reported.)

A Tip for Verifying Total Income

Often, when a student is asked to explain how bills are paid, unreported sources of income are discovered. Ask how much monthly housing and utility bills are and from what income source they are paid. Also ask about food costs, medical bills, and car payments.

VERIFYING ASSETS

If you have reason to believe the student and/or spouse and/or parent(s) own assets that have been incorrectly reported or were not reported, the first appropriate step would be to examine the tax returns of the parties involved. (See Chapter Two for a more detailed discussion on using tax returns and related documents.)

Excludable Assets

You may find assets reported on the tax return that you will not find on the FAFSA, which is appropriate, as certain assets are excluded from consideration when determining federal student aid eligibility. Assets reported on the FAFSA should *not* include, for example, a principal residence, certain types of farms (see the discussion later in this chapter), the value of retirement plans, or cash accounts to which access is denied due to a state's declaration of a bank emergency.

Changes in Asset Value

Assets must be reported in terms of their total value as of the day the applicant signed the FAFSA. It is inappropriate to change an asset's value (or to eliminate an asset originally reported) because that value has changed between the time of application and the time of verification. Assets should be corrected only if they were reported incorrectly at the time of application. (If assets have been depleted since the time of application, causing the applicant undue hardship or significantly changing his or her financial situation, you may choose to make a professional judgment adjustment. For details on professional judgment, see the *Counselor's Handbook.*)

Assets Held in Partnership

If assets are held jointly or by a group, the applicant and/or the spouse (if applicable) and/or the dependent applicant's parent(s) should report only the portion of assets he or she actually owns. Debts on such assets should be reported in the same proportion.

Cash and Bank Accounts

An application should include all cash and bank accounts held by the applicant and/or the spouse (if applicable) and/or the dependent base in Texas owns a home in Virginia. The family is not renting the Virginia home, and it produces no income by any other means. This home is considered the family's principal residence because a military assignment is the only reason they are living elsewhere. Even if the family lives off base in Texas and rents a house nearby, the home in Virginia is still the principal residence because the family plans to return and live there.

> **A Tip for Verifying Real Estate Value**
>
> **The following documents may be useful:**
>
> - **•IRS Schedule A (mortgage interest paid)**
> - **•IRS Schedule B (interest/dividend income)**
> - **•IRS Schedule D (investments sold in base year)**
> - **•IRS Schedule E (property income, trusts, and partnership holdings)**

The current market value of any residential or commercial property **other than the primary residence** is reported on the FAFSA. (The current market value is the amount for which the property could be sold as of the date the application was signed.) Property to be reported should include vacation homes and rental property. As discussed later, the family's farm and business assets should *not* be included.

You may be able to verify the value of certain property with appraisals, tax assessments, mortgage statements, or an affidavit from a real estate office or hall of records. Also, if the property was used for collateral on a loan, its value can be documented with the promissory note from the loan.

Recent Appraisals. Appraisals are the most accurate verifiers of value because they give a good **estimate** of the current market value, but they are generally expensive and not routinely available. If you have access to an outdated appraisal, you may be able to use it to estimate the current value, as discussed later.

Tax Assessment Notices. These notices are the most common and readily accessible documents for verifying property value but must be used with caution because the information will vary greatly depending on location.

For instance, in some areas a percentage of the market value will be assessed, while in other areas a percentage of the tax value is assessed, usually at a lower rate than the true market value. If you wish to use a tax assessment notice, you must know exactly what the assessment rate is for the property's location and how you can use the assessment notice to determine the true market value of the property.

Mortgage Statements, Affidavits, and Promissory Notes. If you use a mortgage statement, an affidavit from a real estate office or hall of records, a promissory note, or an outdated appraisal, the value given for the property will most likely be outdated. However, you can arrive at a gross estimate[11] of the current market value by using the Housing Index Multiplier Table or the Commercial Property Multiplier Table found on pages 56 and 57, respectively. The housing table should be used for residential property only (other than the principal residence); all other property value should be assessed using the commercial property table.

Using the Multiplier Tables

Using the tables is easy; simply multiply the property's value by the multiplier's value for the year of the valuation. The multiplier indexes should *not* be substituted for reported values in order to maximize or minimize need **across the board** for the EFC. (Of course, you may use your discretion to adjust reported value to more accurately reflect an **individual's** financial circumstances.)

The multiplier tables are based on national averages. Market values vary from region to region. The value obtained is an **estimate**; you should use it only as a guide for evaluating the reasonableness of the value reported. If the applicant claims the property value is much lower than that calculated with the tables, the applicant should provide a reasonable explanation for the low market value, for example, fire or other damage. Remember, the actual value may also be much greater than the estimated value.

Investment Debt and Commercial Property Debt

The amount reported should include all unpaid mortgages as well as unpaid property improvement loans and any other loans for which the property is used for collateral. (An IRS lien does not reduce the property's equity and, therefore, should not be reported as a debt against the property.) Property and investment debt can be verified with a monthly mortgage statement or a statement from a mortgage company, accountant, or lawyer.

[11] Any amount established in this manner should not be arbitrarily considered a "minimum" or "maximum" but should be used to evaluate the reasonableness of the applicant's data.

Business Value

The application should show the current market value of the business (the amount for which the business could be sold) as of the date the application was signed. Business value would include the value of land, buildings, machinery, and equipment. If the applicant owns a partial share, only the value of his or her share should be reported.

The value of land and buildings can be verified with a statement from a real estate office, accountant, or lawyer. The total value of the business can be verified with a statement from an accountant or lawyer, or by a copy of a promissory note for a loan for which the business was used as collateral. Purchase agreements and inventory assessments may also be helpful in this verification.

The **current** value of land and buildings can be derived from an outdated value by using the Commercial Property Multipliers, as described on the previous page. Again, because the multiplier gives an estimated value, it should be used as a guide for evaluating the reasonableness of the reported value.

A Tip for Verifying Business Value

The following documents may be useful:

- **IRS Schedule C (business profit/loss)**
- **IRS Form 4562 (depreciation)**
- **IRS Form 4797 (capital gains/losses)**
- **IRS Form 1065 (business partnerships)**

Business Debt

The amount reported should include the unpaid mortgage and related debts, as well as any loan for which the business assets were used as collateral. If the applicant or parent owns only a portion of the business, only his or her share of the debt can be reported. To verify business debt, you can use a copy of the mortgage; a statement from the mortgage company, from an accountant, or from a lawyer; or copies of notes for loans against the business. (If an applicant claims a large business debt but reports little or no interest payments, you may want to investigate further.)

Farm Value

Incorporation of family farm

The value and debt of a family farm should not be reported on the FAFSA. For student aid purposes, a family farm is the family's principal residence and, in most cases, meets the criteria set forth in IRS Schedule F (the family materially participates in farm operation). In certain instances, however, even if the family farm is incorporated and the family files a corporate return instead of IRS Schedule F, the value and debt of the farm are not reported on the FAFSA. In such cases, the applicant must show evidence that family members own all shares of stock in the corporation *and* that members of the student's household for financial aid purposes also reside on the farm.

A farm that does not fall into one of the categories above must be reported at its current market value (the amount for which the farm could be sold) as of the date the application was signed. Farm value would include the value of land, buildings, machinery, equipment, livestock, and inventories. If the applicant or parent owns only a portion of the farm, only his or her share of the farm's value can be included.

The value of land and buildings can be verified with a statement from a real estate office, accountant, or lawyer. You can verify the farm's total value with a statement from an accountant or lawyer or by checking a copy of a promissory note for a loan for which the farm was used as collateral. Purchase agreements and inventory assessments are also useful in verifying farm value.

Farm Debt

The amount reported should include the unpaid mortgage and related debts, as well as any loan for which the farm assets were used as collateral. If the applicant or parent owns only a portion of the farm, only his or her share of the debt can be reported. To verify farm debt, you can use a copy of the mortgage; a statement from the mortgage company, from an accountant, or from a lawyer; or copies of notes for loans against the farm. (If the applicant reports a large debt but paid little or no interest in 1996, you may want to investigate further.)

1996-97 HOUSING INDEX MULTIPLIER* TABLE

Year of Valuation	Housing Index Multiplier**	Year of Valuation	Housing Index Multiplier**
1930	13.44	1973	3.27
1935	16.80	1974	2.98
1940	13.44	1975	2.72
1945	9.12	1976	2.56
1950	6.17	1977	2.31
1955	5.41	1978	2.05
1958	5.28	1979	1.83
1959	5.28	1980	1.64
1960	5.24	1981	1.52
1961	5.24	1982	1.46
1962	5.21	1983	1.45
1963	5.26	1984	1.41
1964	5.23	1985	1.39
1965	5.05	1986	1.33
1966	4.85	1987	1.28
1967	4.68	1988	1.23
1968	4.43	1989	1.19
1969	4.17	1990	1.16
1970	4.07	1991	1.15
1971	3.84	1992	1.14
1972	3.58	1993	1.09
		1994	1.04
		1995	1.01
		1996 (to present)	1.00***

*Source: National Income and Product Accounts of the United States, U.S. Department of Commerce, Bureau of Economic Analysis.
**Derivation of Multiplier: Implicit price deflator for the second quarter of 1996 divided by the implicit price deflator for the reference year.
***As of June 1, 1996, plus projection for remainder of the year.

FOR EXAMPLE: If an applicant's home was bought in 1960 for $10,000, its current value using these tables would be considered to be at least 5.24 X $10,000 = $52,400.

1996-97 COMMERCIAL PROPERTY MULTIPLIER* TABLE

Year of Valuation	Commercial Property Multiplier**	Year of Valuation	Commercial Property Multiplier**
1930	14.49	1973	3.19
1935	19.61	1974	2.87
1940	16.35	1975	2.61
1945	11.70	1976	2.53
1950	7.01	1977	2.35
1955	6.07	1978	2.16
1958	5.52	1979	1.94
1959	5.57	1980	1.75
1960	5.58	1981	1.60
1961	5.61	1982	1.51
1962	5.54	1983	1.46
1963	5.44	1984	1.41
1964	5.33	1985	1.37
1965	5.17	1986	1.32
1966	4.99	1987	1.27
1967	4.83	1988	1.23
1968	4.61	1989	1.19
1969	4.28	1990	1.15
1970	4.04	1991	1.13
1971	3.71	1992	1.13
1972	3.44	1993	1.09
		1994	1.05
		1995	1.02
		1996 (to present)	1.00***

* Source: National Income and Product Accounts of the United States, U.S. Department of Commerce, Bureau of Economic Analysis.
** Derivation of Multiplier: Implicit price deflator for the second quarter of 1996 divided by the implicit price deflator for the reference year.
*** As of June 1, 1996, plus projection for remainder of the year.